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Uno Resigns After LDP Election Setback

After barely two months in office Prime Minister Sosuke Uno said July 24 that he would resign to accept responsibility for the ruling Liberal Democratic Party's most devastating electoral defeat in its 34 years in power. Trounced in the July 23 House of Councillors elections, the LDP won only 36 seats of the 126 contested, well below the 54 seats the ruling party needed to maintain its majority in this chamber. In an unprecedented show of strength the Japan Socialist Party, the country's largest opposition party, won 46 seats, more than double the 22 seats it had at stake in the election.

This outcome marks a watershed in postwar Japanese politics; at no other time in its 34-year history has the LDP not controlled both houses of the Diet. Moreover, ruling party candidates went down to defeat in many rural districts that until recently were considered inviolable LDP strongholds. These results would appear to reflect in particular the extreme unpopularity of the LDP-led

predicted that the furor would pass soon. They argued that, while prices naturally would jump reflecting the new tax, they would not rise subsequently at a faster rate than they had before the tax. And, of course, some prices on items with a reduced tax rate would fall significantly. The overall effect, analysts projected, would be a one-time jump of less than 3 percent in the price level.

Almost four months after the tax was implemented, some of these predictions have been borne out; an evaluation of others has been rendered difficult by complicating factors. An analysis by the Economic Planning Agency shows a pattern of price increases that conformed to rates of change in indirect taxes. For example, five newly taxed service categories rose in price 2.8 percent in April compared to the month before, 0.5 percent in May and 0.2 percent in June for a total increase over the three months of 3.5 percent. By contrast, for five categories of consumer durables where taxes were reduced, prices fell 6 percent in April, another 0.3 percent in May and 0.1 percent in June for a total drop of 6.4 percent.

Overall price levels have shown a fairly predictable pattern as well. In April wholesale and retail prices rose by 2.5 percent and 2.4 percent, respectively, over year-earlier levels, reflecting in both cases about a 1.5 percentage point jump over the previous annual rate of increase. As such, the figures were in line with forecasts. However, both indexes showed continued rates of increase above the underlying rate in May. While consumer price figures in June appeared to show a return to relative price stability, wholesale prices that month continued rising faster than they had prior to April 1.

However, the depreciation of the yen, a process that began late last year and continued at least through early summer, was no doubt responsible for some of the upward movement in the wholesale price index. Even with taxes and exchange rates pushing the same direction, the results were less than catastrophic. Wholesale prices in June were running 3.7 percent ahead of a year earlier, a good performance by the standards of most countries -- if not Japan's, which has become accustomed to year-to-year declines in overall wholesale prices.

And what of the arguments for social equity that were one of the reasons for the tax in the first place? Japanese voters obviously have vetoed this line of thinking. Opposition party leaders already have said that repeal of the consumption tax will head their agenda when the Diet reconvenes. The ruling Liberal Democratic Party also has left the door ajar to major changes in the tax. In its present form the tax appears headed for an early demise -- as does the career of any Japanese politician who strongly supports it.

Douglas Ostrom

Japan's Trade Surplus Dips

Normally, both sides of the Pacific would cheer news that Japan's trade surplus on a customs-clearance basis had fallen. The data for April through June show that Japan's dollar-denominated surplus of exports over imports was 8.7 percent smaller than the year before (see Tables). Furthermore, the improvement was enough to offset the previous quarter's widening gap, leaving the surplus for the first six months of 1989 a scant 0.7 percent below the January-June 1988 level. Additionally, at least one unusual factor may have worked to

Japan's Total Trade in Dollar Terms

(in millions of dollars)

	Exports (f.o.b.)	Change Over Year-Earlier Period	Imports (c.i.f.)	Change Over Year-Earlier Period	Trade Balance
1984	$170,114	15.8%	$136,503	8.0%	$33,611
1985	175,638	3.2	129,539	-5.1	46,099
1986	209,151	19.1	126,408	-2.4	82,743
1987	229,221	9.6	149,515	18.3	79,706
1988	264,917	15.6	187,354	25.3	77,563
1987: I	51,464	13.1	31,977	-3.1	19,487
II	56,931	7.1	36,380	15.8	20,551
III	57,855	5.6	38,346	27.2	19,509
IV	62,972	13.0	42,812	34.5	20,159
1988: I	60,279	17.1	44,505	39.2	15,774
II	65,179	14.5	47,260	29.9	17,919
III	67,169	16.1	47,258	23.2	19,911
IV	72,291	14.8	48,331	12.9	23,960
1989: I	68,247	13.2	51,147	14.9	17,100
II (p)	67,586	3.7	51,217	8.4	16,369

Japan's Total Trade in Yen Terms

(in billions of yen)

	Exports (f.o.b.)	Change Over Year-Earlier Period	Imports (c.i.f.)	Change Over Year-Earlier Period	Trade Balance
1984	Y40,325	15.5%	Y32,321	7.7%	Y8,004
1985	41,956	4.0	31,085	-3.8	10,871
1986	35,290	-15.9	21,551	-30.7	13,739
1987	33,315	-5.6	21,737	0.9	11,578
1988	33,939	1.9	24,006	10.4	9,933
1987: I	7,960	-8.2	4,959	-21.7	3,002
II	8,153	-10.6	5,207	-3.6	2,946
III	8,507	-1.5	5,644	18.6	2,864
IV	8,694	-1.9	5,928	17.2	2,767
1988: I	7,713	-3.1	5,688	14.7	2,025
II	8,163	0.1	5,918	13.6	2,246
III	8,924	4.9	6,280	11.3	2,644
IV	9,139	5.1	6,121	3.3	3,018
1989: I	8,707	12.9	6,516	14.6	2,191
II (p)	9,220	12.9	6,987	18.1	2,233

Source: Ministry of Finance

Japan's Trade with the United States in Dollar Terms

(in millions of dollars)

	Exports (f.o.b.)	Change Over Year-Earlier Period	Imports (c.i.f.)	Change Over Year-Earlier Period	Trade Balance
1984	$59,937	39.9%	$26,862	9.0%	$33,075
1985	65,278	8.9	25,793	-4.0	39,485
1986	80,456	23.3	29,054	12.6	51,401
1987	83,580	3.9	31,491	8.4	52,090
1988	89,634	7.2	42,037	33.5	47,597
1987: I	18,001	7.8	6,986	11.3	11,015
II	21,181	1.2	7,592	-8.6	13,589
III	21,628	1.6	8,252	9.7	13,376
IV	22,770	5.6	8,660	24.7	14,110
1988: I	19,859	10.3	10,090	44.4	9,769
II	21,610	2.0	10,458	37.8	11,152
III	23,056	6.6	10,667	29.3	12,389
IV	25,109	10.3	10,821	25.0	14,288
1989: I	22,728	14.4	11,566	14.6	11,162
II (p)	22,996	6.4	12,050	15.2	10,946

Japan's Trade with the United States in Yen Terms

(in billions of yen)

	Exports (f.o.b.)	Change Over Year-Earlier Period	Imports (c.i.f.)	Change Over Year-Earlier Period	Trade Balance
1984	Y14,221	39.7%	Y6,364	8.7%	Y7,858
1985	15,583	9.6	6,213	-2.4	9,369
1986	13,564	-13.0	4,918	-20.9	8,646
1987	12,148	-10.4	4,582	-6.8	7,566
1988	11,487	-5.4	5,388	17.6	6,099
1987: I	2,786	-12.7	1,083	-9.9	1,703
II	3,034	-15.5	1,086	-23.6	1,948
III	3,180	-5.2	1,215	2.1	1,965
IV	3,148	-8.2	1,198	8.5	1,950
1988: I	2,541	-8.8	1,290	19.1	1,251
II	2,706	-10.8	1,309	20.5	1,397
III	3,063	-3.6	1,418	16.7	1,645
IV	3,177	0.9	1,371	14.4	1,806
1989: I	2,900	14.1	1,474	14.2	1,426
II (p)	3,139	16.0	1,646	25.7	1,493

Source: Ministry of Finance

temporarily widen the surplus, thus making the figures seem, if not a policymaker's dream, at least enough to permit a small celebration, especially in light of concerns based on first-quarter results. The current figures include results for April when the new consumption tax was introduced, which probably had the temporary effect of slowing import growth and widening the surplus.

Americans, perhaps, would have somewhat less to celebrate than others at any hypothetical party. The bilateral imbalance with the United States barely moved, down a mere 1.8 percent in dollars in the April-June quarter while rising in yen during the same period and increasing in both yen and dollar terms for the first six months of this year.

On reflection, however, anyone hoping for a continuing decline in Japan's surplus might want to cancel the celebrations. The consumption tax was not the only unusual factor affecting the figures; most of the others were less encouraging for the direction of the imbalance. Most obvious was the yen's weakness in the quarter, when it depreciated 8.4 percent on a year-to-year basis against the dollar. On a dollar basis, the effect was to reduce the measured growth rate of both imports and exports. Since exports are larger, on balance the decline in the surplus was larger than it would have been in the absence of currency movements.

Importers raised yen-denominated prices in response to the yen's weakness but, less predictably, hiked them in dollar terms as well. Together, these price changes lifted the yen value of imports while leaving volume little affected during the April-June period. These price changes are the reason imports reflect increases of 8.4 percent in dollars over the year's span and 18.1 percent in yen but only 3.5 percent in volume.

In export markets the growth was 3.7 percent in dollars and 12.9 percent in yen compared to a year earlier. The dollar figure was less than the 4.2 increase in volume, which suggested that Japanese exporters may have been able to cut dollar-denominated prices in foreign markets slightly. Furthermore, the volume growth of exports exceeded the volume growth of imports. If quantity is a better measure than yen or dollars for some purposes, such as assessing the extent to which Japan is moving toward domestically led growth, the figures are not reassuring to those who fear that the process already has stalled.

The apparent hikes in import prices and the cuts in dollar-denominated export prices also have unfavorable long-term implications for the direction of the dollar-denominated surplus. As American and other foreign buyers adjust to the new prices over time, they can be expected, other factors being equal, to increase their purchases of Japanese exports compared to present levels. The same kind of thinking will lead Japanese buyers of imported products to reduce their purchases in response to higher prices. In other words, the current figures, while superficially favorable, contain hints that -- exactly as feared -- Japan's trade surplus could start growing again.

Douglas Ostrom

Supermarket Shopper Shakes Japan's M&A Market

As local and international interest began to dim regarding U.S. corporate raider T. Boone Pickens' unwelcomed purchase of a big share of a Japanese